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SECTOR COMPETITIVENESS FRAMEWORKS

HOUSEHOLD FURNITURE HIGHLIGHTS



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Sector Competitiveness Frameworks are a new series of documents produced by Industry Canada in partnership with Canada's key industry stakeholders. Each framework will examine a major Canadian industry, and will be prepared in two volumes. *Part 1 — Overview and Prospects* focusses on the opportunities, both domestic and international, as well as on the challenges facing industry sectors in Canada. *Part 2 — Framework for Action* will be based on consultations with major industry stakeholders, following study and review of the Overview and Prospects.

The objective of the **Sector Competitiveness Frameworks** series is to seek ways in which government and private industry together can strengthen Canada's competitiveness and, in doing so, generate jobs and growth.

In all, some 29 industrial sectors will be analyzed. *Part 1 — Overview and Prospects* will be available for distribution in printed as well as electronic forms during coming months for the following industries:

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Household Furniture
Petroleum Products
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Electronic copies of *Household Furniture: Part 1 — Overview and Prospects* are available on the Internet at the following address: http://strategis.ic.gc.ca/household_furniture.scf

This Highlights document can be made available in alternative formats upon request.

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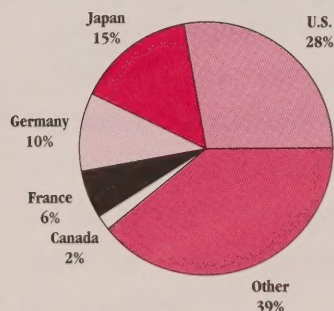


HIGHLIGHTS

Household furniture making has been part of Canada's industrial base since its earliest history.

- Jobs (1994): 19 536 in 578 plants.
- Shipments (1995 estimate): \$1.83 billion (up from \$1.72 billion in 1994).
- 1994 breakdown of shipments:
 - Wooden furniture: 62%
 - Upholstered furniture: 29%
 - Metal and plastic furniture: 9%
- Canadian market (1995 estimate): \$1.79 billion (down from \$1.8 billion in 1994).
- While the industry accounts for only 1.2 percent of manufacturing employment in Canada and 0.5 percent of manufacturing shipments, it is the third largest customer of the Canadian textiles industry and consumes about a third of all hardwood lumber production in Canada.

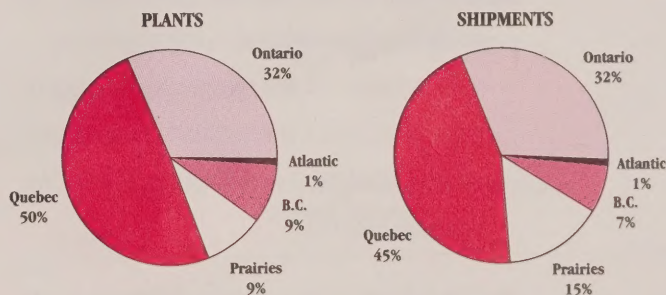
World Market for Household Furniture, 1993



Source: Industry Canada estimates.

- Canada has a 2 percent share of the world market for household furniture.
- The U.S. market is the world's largest market and offers Canada unique export opportunities.
- The industry is fragmented, consisting of a few large firms and many small ones. The largest manufacturer reported sales of \$334 million in 1994.
- The industry is predominantly Canadian owned, with a strong tradition of family ownership.
- The industry is located in small and large communities across Canada.
- Barriers to market entry are low.

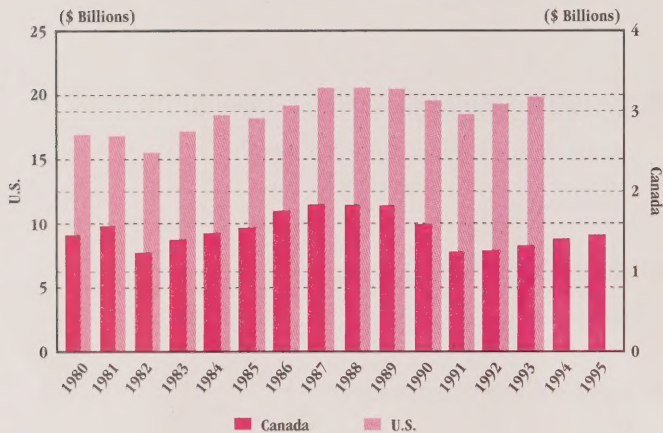
Regional Distribution of Canadian Household Furniture Industry Plants and Shipments, 1993



Source: Statistics Canada, Catalogue No. 31-203.

The Canada–U.S. Free Trade Agreement (FTA) and the 1990–91 recession have forced the industry to make significant adjustments.

**Comparison of Canadian and U.S. Household Furniture Industry Shipments
(constant 1986 Canadian dollars)**



Source: Statistics Canada, Catalogue No. 35-251; U.S. Department of Commerce, Census of Manufacturers, 1992, and U.S. Industrial Outlook, 1993.

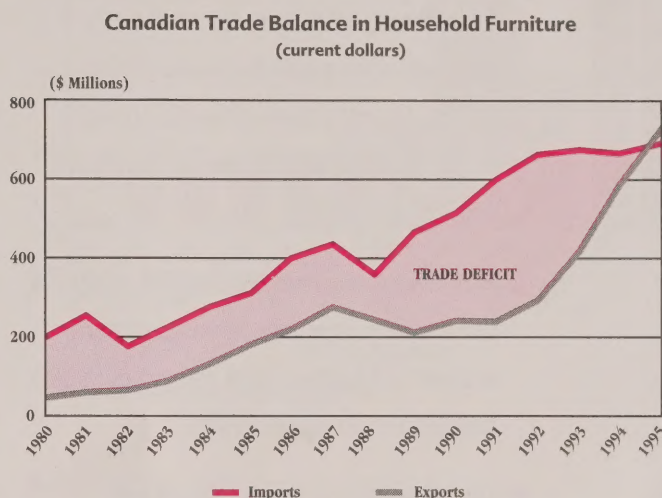
- Restructuring has produced a significant decline in the number of manufacturers, a more rationalized and specialized structure of production, and a reorientation of marketing efforts toward the U.S. in the face of declining domestic demand.
- The industry worldwide relies for research and development (R&D) on suppliers of materials, machinery and equipment. Most R&D is done outside Canada.

- The Canadian industry is less capital intensive than its U.S. counterpart, and new investments are modest relative to other manufacturing industries.
- Poor financial performance over the past few years has reduced access to capital and the ability to invest in modern production technologies.
- Canadian productivity was 23.1 percent lower than that in the U.S. in 1992 (down from a gap of 29.6 percent in 1991) as a result of both lower levels of investment and larger-scale U.S. plants.
- Investments focus on computer-aided design (CAD) equipment and computer numeric controlled (CNC) machines, which have been acquired by about 40 percent of Canadian firms. These technologies have improved plant productivity as well as the quality and appearance of Canadian furniture.
- While a growing number of Canadian manufacturers are known for their strong design capabilities, the industry still largely imitates U.S. and European designs. Federal and provincial governments have provided important financial support to encourage innovative designs.

Labour supply has not been a critical problem, although specialized skill shortages continue to exist. The introduction of computerized machinery and equipment requires more highly literate workers.

- The industry is labour intensive and employs primarily unskilled and semi-skilled workers.
- Wages are below the average for the manufacturing sector in Canada.
- The Canadian industry faces slightly higher labour costs than its U.S. counterpart, but the wage gap is partly offset by the lower salary costs of non-production employees.
- Most firms are run by entrepreneurs who are generally oriented toward the production end of the business. The industry suffers from a lack of professional management, particularly in marketing, where the American competition is much stronger.
- In the coming years, the industry will have to invest substantially in its human capital to realize the full potential of new production technologies.
- Human Resources Development Canada, in partnership with Industry Canada, has identified skill gaps and has assisted in the development of new education and training programs for the industry.

After years of trade deficits, the industry is responding to export opportunities and recorded its first trade surplus in 1995 of \$35 million.



^a Data for 1988 and after are reported by code groupings under the Harmonized Commodity Description and Coding System.

Source: Statistics Canada, Catalogue Nos. 65-004 and 65-007; TIERS CD-ROM.

- Exports tripled between 1988 and 1995 to reach \$728 million, or nearly 40 percent of industry shipments.



Source: Statistics Canada, Catalogue Nos. 65-004 and 35-251; TIERS CD-ROM.

- Canada has been particularly successful in tapping an export market for wooden furniture.
- The most successful exporters focus on design and quality rather than on price.
- Canadian exporters have depended on the U.S., which absorbed nearly 96 percent of 1995 exports. Canada's share of the U.S. market is only about 1.5 percent, leaving significant room for expansion.
- Most exports originate from a small number of firms, mostly large ones. As yet the majority of small and medium-sized enterprises (SMEs) have little or no export activity.
- The Department of Foreign Affairs and International Trade, in partnership with Industry Canada, works with the industry to develop stronger export awareness and marketing among SMEs.
- Between 1988 and 1995, imports doubled to reach \$693 million, or 38.7 percent of the domestic market. The U.S. supplied 62.2 percent of all household furniture imports, followed by low-wage countries.
- The loss of market share to imports has been most severe for upholstered furniture.

An increasing number of household furniture manufacturers are sensitive to the environmental impact of their products.

- Canadian firms have reduced the levels of volatile organic compound (VOC) emissions from their plants.
- The processes used in household furniture manufacturing do not give rise to serious pollution problems.

The industry imports a wide range of input materials, notably upholstery fabrics.

- American competitors take advantage of the lower tariffs assessed by the United States on imports of inputs from nations with which it has established Most Favoured Nation (MFN) status.
- The reduction of tariffs on input materials negotiated during the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT), which is now known as the World Trade Organization, will help level the playing field for Canadian manufacturers.

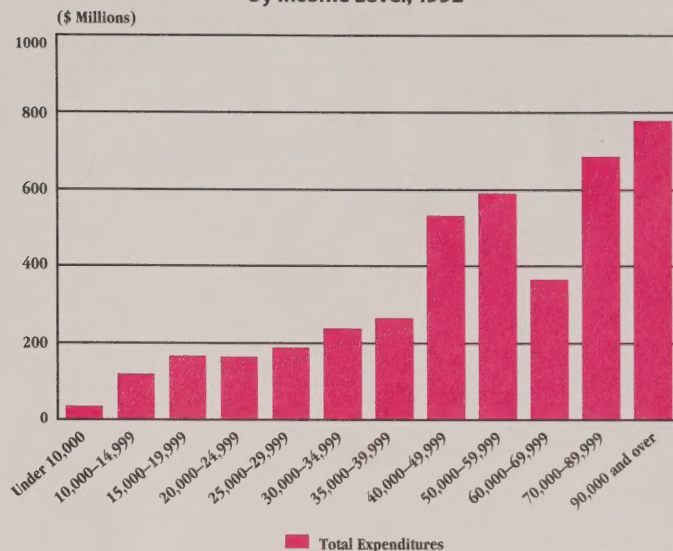
The industry needs a strong national association to counter its fragmentation.

- Regional rivalries have prevented the national trade association (i.e. the Canadian Council of Furniture Manufacturers) from acting as an effective information clearing house.

Domestic demand will remain flat, with growing demand in several niche markets.

- Short-term domestic demand depends on consumer disposable income and the economic cycle, whereas medium-term demand relies more on household formation and housing starts.
- Over the next decade, the Canadian market will grow at 1 percent in real terms, which is lower than the projected rate for total consumer expenditures.
- Furniture that meets the physical needs of the elderly and furniture geared toward home entertainment centres are among the growth niches.
- Key consumer niche markets include high income earners and new immigrants.

Canadian Consumer Expenditures on Household Furniture, by Income Level, 1992



Source: Statistics Canada, Catalogue No. 62-555.

- The industry could expand domestic demand by shifting consumer perception of furniture from a “commodity” to a “fashion” item, thus speeding up the replacement cycle.

Increased exports will help counter weak domestic demand.

- Demand in the U.S. market is expected to grow at 2–3 percent per year in real terms.
- The North American Free Trade Agreement (NAFTA) gives Canadian exporters improved access to Mexico.
- The World Trade Organization creates new market opportunities for Canadian furniture makers, particularly in western Europe and Asia Pacific.

- Trade liberalization will also create increased competition at home and abroad.

Furniture is sold to consumers through retailers.

- The industry faces an increasingly concentrated and demanding retailing sector, forcing manufacturers to re-examine marketing strategies as well as the nature and extent of their linkages with retailers.

The Canadian industry must overcome barriers to take advantage of growth opportunities.

- The industry must:
 - overcome fragmentation
 - control its costs
 - improve productivity
 - update equipment and technology
 - improve worker and management skills
 - improve design and marketing.
- The *Framework for Action* will address these and other issues, in partnership with industry and other stakeholders.

For further information concerning the subject matter contained in these Highlights, please contact:

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